O

Discussion Statement No. 8 August 1934
Material suggested for use in developing discussion of problems of agricultural adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration
Washington, D. C.

---------O---------

THE REOPENING OF FOREIGN MARKETS FOR OUR AGRICULTURAL PRODUCTS

by
Henry A. Wallace
Secretary of Agriculture

(Address given before meeting of the American Institute of Cooperation, Madison, Wisconsin, July 11, 1934.)

For several years it has seemed to me that America must make a fundamental choice involving her foreign trade policy. We can go nationalistic, and become highly self-sustaining; or we can go internationalistic and try to win back our lost foreign trade; or we can take a course perhaps half-way between. The nationalistic course, I have been pointing out, would lead us toward ultimate self-containment, but it would do so at a cost heavy in terms of economic sacrifice and perhaps extreme regimentation; a cost which, in agriculture alone, would mean the abandonment of about 40 million acres of good crop land. The internationalistic course, on the other hand, might not involve any acreage reduction, but would obligate us to import annually at least $500,000,000 more of goods than we now import. This is the only way foreign countries can pay interest on their debts to us and at the same time make current purchases of goods and services on a predepression scale. Between these extremes, however, there is a third alternative, which I have called a "planned middle course." This would involve the admission annually of perhaps $200,000,000 more of goods than we now import and at the same time permanent seeding down or reforesting of some 25 million acres of good plow land, or perhaps 50 million acres of poor land.

National Trade Policy Needed

None of these courses is easy, none can be taken heedlessly or spasmodically. What is involved here is a national trade policy that we can agree upon and stick to, despite the pressure of short-sighted groups, for perhaps 25 or 50 years.

Each of these three courses involves some pain. The question is whether we are willing to suffer a little pain now in order to avoid an infinitely greater pain later on. Because the middle course involves perhaps the least discomfort, I have been inclined to favor that, and to recognize it as our probable choice.

The big problem in American agriculture as well as in our entire economic life is to determine whether we are going to continue producing on the 50 million acres formerly needed for exports, or whether by some type of social discipline--effective through the centralizing power of the Government, yet self-imposed in origin -- we are going to cease cultivation of those surplus acres. Over this problem there can be no differenceof opinion.

There exists an absolute necessity of a long-time program to control very effectively the area producing products formerly sold abroad, until such time as a sound foreign market is restored. And this restoration, let me add, will not come from measures which are purely temporary, but only by the American purchase of foreign goods. We have sidestepped this question ever since the Great War, and our action now cannot be hasty or unwise.

The pursuit of a planned middle course involves, first, some reduction in the size of our agricultural plant as a whole; and, second, a reopening of foreign markets for our farm products. Thus far, sheer force of circumstances has compelled us, without losing sight of the foreign market, to concentrate our efforts upon reducing our farm plant. With the world's capacity for agricultural production, including our own, greatly expanded throughout the war and post-war era, and in the face of a general collapse of purchasing power for our farm products both at home and abroad, it was not a matter of choice but of sheer necessity that led us to the adoption of an emergency program of orderly retreat from surplus acreage. This program continues. It is designed to reduce our production to domestic requirements plus that amount which we can export with profit.

International Trade Problems Important and Difficult

But the amount that we can export with profit need not and should not continue indefinitely at the pitifully shrunken level to which it has now fallen. Ten years ago -- to go back before the peak of the inflationary period preceding the depression -- we were exporting almost two billions of dollars worth of agricultural products annually. During the five-year period, 1922-1926, our agricultural exports averaged annually $1,954,000,000. By 1933 the value had declined to $694,000,000 -- scarcely more than a third of what it had been a decade earlier To be sure, the shrinkage in quantity was not so great as this, but in large measure this was because our productive capacity was still expanded far beyond the point warranted by existing conditions of demand at home and abroad. In these circumstances the prices received were necessarily distress prices and not at all representative of costs.

It is the operations along this second front -- this attack upon the problem of restoring foreign outlets for our farm products -- that I want chiefly to discuss here. But before I do so let me make certain things clear. First, I think it should be fully realized that the operations on this second front cannot, under even the best of auspices, move very rapidly. For the problem of clearing away existing impediments to a healthy flow of international commerce is just as difficult as it is important. We must attack it with all of the skill and energy that we can muster, but we shall be deluding ourselves if we suppose that progress can be rapid. It follows, therefore, that we shall have to continue our efforts to bring about a proper adjustment of production to the effective demand for farm products.

People who delight in splitting hairs say it is inconsistent to launch a simultaneous attack on both these fronts. They forget that a manufacturer does not cease his efforts to expand sales because a fall in demand has led him to reduce output. In fact, he usually redoubles his efforts to sell goods in such a situation. The same principles apply to agriculture.

We are also told that it is inconsistent and unfair to ask our farmers to curtail production while we permit any imports of agricultural products, however remotely competitive, to come into the country. Doubtless this position has some merit in logic, but none if we wish to be realistic. It is an exaggerated and a futile view of the problem.

It is true that when we curtail production of a crop under conditions where imports are likely to increase as a consequence, we are compelled as a matter both of justice and of common sense to take steps to limit imports as well. But to say that every dollar's worth of agricultural imports, however remotely competitive with domestic production, must be shut out of the country before any curtailment of domestic production is attempted, is to fail to understand the problem. The only outcome would be to subsidize the less effective kinds of agricultural production at the expense of the more effective, while still leaving us face to face with the problem of finding outlets for a large surplus of farm products. To exclude the relatively small volume of agricultural products of a more or less competitive type that somehow manage to trickle in over the tariff wall would accordingly be worse than futile.

Thus far -- may I repeat -- we have had to concentrate our chief efforts on the internal program of readjustment of production to effective demand; and it is altogether clear that these efforts must continue. But there are at last signs that operations on the other front, which until now have been for the most part passive and defensive, are about to become active. With the setting up of new agencies to deal with various phases of the problem, and particularly with the enactment of the Reciprocal Tariff Bill, we are now equipped to enter upon an active campaign for the upbuilding of our seriously depleted foreign trade. America is getting ready to choose.

New Tariff Act Holds Promise

Under the new Tariff Act the President is authorized to enter into trade agreements with foreign countries and in connection therewith to reduce -- or increase -- any existing tariff rate by as much as 50 percent. I especially stress the words "in connection therewith", because it has been erroneously assumed by some that the Act authorizes the President, simply at will, to alter any rate by 50 percent, without reference to tariff negotiation with foreign countries. Not only must the changes in rate be limited to agreements entered into with foreign countries; but in addition, since the purpose of the Act is to increase foreign trade, we must suppose that most, if not all, of the changes in rates will in fact be downward.

That the successful planning and execution of bi-lateral negotiations with a long list of countries will take time and patience is nowhere better realized that by those who are charged with this responsibility. But the task is being squarely faced, and rapid progress is being made in getting properly organized for the job.

Heading up the work is the Executive Committee on Commercial Policy, an interdepartmental committee which has already been helping determine broad questions of commercial policy throughout the past year. Important questions of policy will continue to be referred to this committee. Immediate responsibility for action, however, will rest on two other committees, the Interdepartmental Committee on Foreign Trade Agreements, and the Hearings Committee. On the foreign trade agreements committee are representatives of the Departments of State, Treasury, Agriculture, and Commerce, the Tariff Commission, the N.R.A., and the Special Adviser to the President on Foreign Trade. This committee will arrange for such general economic studies as may be necessary, as well as for studies relating to particular negotiations. It will also advise in selecting countries for negotiations, and have special interdepartmental committees working with it for each agreement which is in prospect. The Hearings Committee will be charged with carrying out Section 4 of the Reciprocal Tariff Act, which grants a hearing to persons interested in any of these foreign trade agreements.

This drive for the restoration of foreign trade has surely not come too soon. Everywhere, international trade has shrunk sensationally. In terms of volume, world trade in 1933 was reduced to approximately 70 percent of its 1929 level; in terms of value, to but 35 percent of its 1929 level. Of our own foreign trade the value declined from 9.5 billions of dollars in 1929 to 2.3 billions in 1933, a decline of approximately three-fourths. Moreover, our share in total world trade has diminished. Between 1929 and 1932 it fell from 13.83 percent to 10.92 percent -- a very significant decline.

Whether or not this great shrinkage in international trade was primarily responsible for the depression, it was a contributing cause, and the complicated tangle of trade barriers which has subsequently come into being is one of the most serious impediments to world recovery. In previous crises, as the League of Nations has pointed out, there was never so great a shrinkage in the volume of trade, because a fall in prices resulted in a speedy increase in the volume of trade. In the present crisis, high trade barriers the world over have combined with other factors to prevent this outcome.

Farmers Have Much at Stake in Foreign Trade Program

In any soundly conceived program for the upbuilding of our seriously depleted foreign trade, farmers in this country have much at stake. But it is not only a matter of restoring foreign outlets for farm products; it is a matter also of improving the entire economic well-being of the country and hence of increasing the demand for farm products at home as well as abroad.

What, then, are the possibilities of restoring foreign markets for farm products, and for which products are the chances most promising?

Past performance does not necessarily tell us what future performance will be. Earlier trade figures must therefore be used with reservations. Because we were able to export nearly 2 billions of dollars worth of agricultural products annually in the pre-depression era -- at a time when our exports were being inflated by over-zealous foreign lending the implications of which, in terms of increased imports of goods and services, we were unwilling to face -- it does not follow that we can expect to export as much in terms either of quantity or value in the future. Even the importation of a larger quantity of goods than we have heretofore been willing to import and the revival of foreign lending of a more judicious type may not suffice to restore the purchasing power of foreign countries to the artificial level to which it was hoisted during the earlier period of reckless lending. Moreover, it is virtually certain that some of the trade that has been lost is permanently lost, either to competitors in other exporting countries or to producers in the importing countries. Some of the expansion of agricultural output that has been artificially stimulated in the importing countries seems likely to persist. Nevertheless, with proper reservations, it is worth while looking at the earlier trade figures to see what our past performance has been.

European Industrial Countries Great Potential Outlet

I referred a moment ago to the fact that in 1922-1926 we exported annually almost 2 billion dollars worth of agricultural products. Of this total, nearly half went to the United Kingdom and Germany, the former taking 30.6 percent, the latter 14.8 percent. Another 30 percent was distributed between France, Italy Japan, Canada, and Netherlands, in ratios ranging from 7.1 percent for France down to 4.7 percent for Netherlands. In 1933, when the total value of exports of farm products was but a third of what it had been in 1922-1926, the distribution of the trade remained broadly similar to what it had been previously, except in the case of Japan, whose share increased from 6.0 to 13.1 percent. It is clear, therefore, that while Japan, China and a number of other countries outside of Europe cannot be overlooked, the great potential outlet for our farm products remains, as it has always been, the industrial countries on the other side of the Atlantic. To the United Kingdom alone we sent some $597,000,000 worth of agricultural products annually in 1922-1926, but only $192,000,000 worth in 1933. To Germany we sent $288,000,000 on the average in 1922-1926, but only $103,000,000 worth in 1933. If, by making it possible for foreign countries to buy more and to pay better prices, we can restore even a substantial part of this lost trade with the United Kingdom, Germany, and the others, farmers in the United States will surely be tremendously benefited.

With respect to particular commodities the opportunities for increased export vary widely. As regards some, our competitive position seems to have been permanently weakened; while as to others it appears to be well sustained and merely awaiting a revival of foreign purchasing power and the granting of freer access to foreign markets.

Cotton and Tobacco Prospects Best

For our greatest agricultural export, namely cotton, it is chiefly a matter of purchasing power rather than of trade barriers. In this case the significance of the tariff bargaining program upon which we are about to enter arises from its relation to world economic revival as it affects the European

cotton textile industry. In contrast to our other agricultural exports, cotton has been directly restricted by trade barriers in only one country, namely Germany, and it is not yet clear whether the German restrictions will reduce the consumption of cotton, or whether they are merely intended to promote a policy of hand-to-mouth buying. On the whole our cotton exports have been restricted by the low level of consumers' incomes in foreign countries rather than by trade restrictions. Tariff bargaining, in so far as it increases world trade, will increase world business activity and purchasing power and hence will strengthen the foreign demand for cotton. In spite of some signs of expansion of cotton growing in areas outside the United States, our great comparative advantage in the growing of this crop will enable us to share heavily in any revival of demand.

More direct are the possible benefits of tariff bargaining for our other important export crops, since most of them are subjected to serious trade restriction. The opportunities, of course, vary considerably with the commodity. Among those in a more favorable position is fruit. Trade barriers affecting fruit have had but little effect on production in the importing countries. In many cases our fruit exports have been subjected to restrictions simply as luxuries especially suitable for revenue taxation, or else largely excluded by countries anxious, for financial reasons, to cut down the total of their imports. Despite such restrictions our exports of fresh fruits have held up remarkably well in quantity; but a moderation of existing restrictions would greatly improve the prices received for them.

For tobacco, also, the possibilities seem good. It is true that government intervention has resulted in a marked increase of production in a number of countries to which we were formerly large exporters, as for example Italy. Nevertheless we continue to possess important advantages in the production of certain types of tobacco. And as high duties, together with other forms of import restriction (especially restriction by government monopolies -- a form of restriction not beyond the scope of our recently granted tariff bargaining authority) have been an important factor in the export situation, it ought to be possible to secure concessions of real value to our tobacco growers.

Wheat and Pork Face Serious Obstacles

Because both pork products and wheat have been up against mountainous trade barriers, we should expect these commodities to be particularly promising items for tariff negotiation. But the obstacles are serious.

On the whole, they appear less serious for pork products than for wheat. Partly this is because our comparative advantage in pork production has held up rather better than in wheat, this notwithstanding efforts of both importing and exporting countries to develop their pork industry. Probably more important, however, is the fact that foreign trade restrictions in the importing countries, especially in such important markets as the United Kingdom and Germany, have substantially restricted consumption by decreasing imports more drastically than they have increased their domestic production. By tariff negotiation, therefore, it may be possible to increase our exports to these countries without displacing any great amount of domestic production.

For wheat the prospects are less favorable for two reasons. The first and more important reason is the increasing comparative advantage of the newer countries. This has little relation to trade barriers; though the tariff preference enjoyed by the British Dominions in the British market should not be overlooked. The other reason is the likelihood that those importing countries that have reached or approached self-sufficiency in wheat supplies will be reluctant to retreat very far from their present position. For this reluctance the reasons are both economic and military. Self-sufficiency in wheat is something to which these countries seem to attach peculiar importance. In the greatest importing area of all, the United Kingdom, the situation is different. For the measures adopted by the British to encourage domestic production have done little to discourage consumption, and while encouraging some expansion of production, have nevertheless left the country dependent upon imports for most of its supplies. Hence there is little that can be done through tariff bargaining to increase total British imports of wheat, and probably not much that can be done to increase our share of the trade; though abandonment of preference to the Dominions would help to some extent.

On the whole it is clear that our tariff bargaining program offers large possibilities in the way of increasing the foreign demand for our agricultural products. What will actually happen remains to be seen. We have recently had a litte experience which is illustrative of both the possibilities and the obstacles involved. I refer to our bargaining for increased exports of farm products through quotas on liquor imports.

At the time of the repeal of the Prohibition Act it was considered desirable, in order to prevent an undue flood of liquors into the United States, to introduce some plan of quantitative restriction. A marketing agreement was accordingly drawn up under the authority of the Agricultural Adjustment Act by means of which it was possible to institute a system of import quotas on wines and liquors. It was specifically set forth in the marketing agreement that the quotas should be based on the average imports during the five years immediately preceding the war and that all countries should be allowed quotas equivalent to those figures. It was provided that additions would be made to these basic quota for such countries as would agree to make some concession with respect to their imports of agricultural products from the United States.

It soon became apparent that the liquor quotas would be of relatively little value for bargaining purposes, because the American demand for wines and liquor from most countries proved to be considerably less than was permitted by the basic quotas for which no bargaining was necessary. Our high import duties on wines and liquor were an outstanding factor restricting the outlet for foreign wines and liquor in this country, and there was no provision for a reduction in these duties in connection with the liquor bargaining program.

Trading Fruit for Wine

It was possible, however, to secure certain very definite advantages for our export trade in agricultural products. The expansion of the French market for American apples and pears during the last two or three years has been one of the outstanding developments in our export trade in agricultural products. The

opening up of the French market during this period was of very substantial benefit to the growers of apples and pears in the export regions of this country. We were consequently anxious to maintain our outlet in this market to the fullest possible extent. The possibility of doing this in the face of the French policy of restricting imports by means of quotas did not look at all bright until the inauguration of the liquor quotas put a bargaining weapon into the hands of the United States Government. As a result, and with every prospect that our shipments to France would otherwise have decreased, it was possible to induce the French Government to increase the quota for apples and pears to 20,000 metric tons for the first quarter of 1934. This was a larger quantity of apples and pears than had ever before been exported to France from the United States in any corresponding period and over five times the quota that was granted for American apples and pears in the last quarter of 1933.

The other outstanding instances of advantages gained through the liquor quotas were in connection with tobacco exports to Spain and Italy. The Spanish Government, through the Spanish Tobacco Monopoly, made a commitment to purchase $3\frac{1}{2}$ million pounds of American tobacco over and above the amount of the purchases that had been intended for the 1934 season. It was indicated that the total amount intended to be purchased was in the neighborhood of $17\frac{1}{2}$ million pounds, as compared with average exports of American tobacco to Spain during the last five years of approximately 10 million pounds. These assurances of a large market in Spain for American tobacco were of particular benefit in view of the special need of outlets for dark Virginia and Kentucky and Tennessee fire-cured tobacco. As for Italy, the Italian Tobacco Monopoly agreed to purchase in the United States $1\frac{1}{4}$ million pounds of leaf tobacco. This commitment, while for a relatively small amount, was distinctly helpful because of the fact that Italy now buys from the United States certain higher-priced types of dark tobacco for which the demand, both foreign and domestic, is rather restricted.

The thing that stands out most, however, in this experience with the liquo quotas is the fact that in order to obtain valuable concessions by foreign countries we must be in a position, and willing, to make valuable concessions in return. We cannot expect something for nothing. Though we secured some important concessions through the liquor import quotas, we could have secured a great deal more if our tariff duties on liquor had not been so high that the quotas extended could not be fully used.

Concessions Necessary in Trade Expansion Program

And this brings us to the crux of the whole matter. What concessions are we prepared to make in connection with our new tariff bargaining program?

First of all, let me say that no concessions that amount to anything can be entirely painless. There will, of course, be many concessions that would, even by themselves, be of benefit to the nation as a whole -- and I think most of our concessions will be of this kind; but every one of them will involve treading on somebody's toes.

It has been suggested that we could make painless concessions by encouraging imports of non-competitive goods, such as coffee, tea or rubber. But we can, in fact, make no concessions on such products. They are not dutiable under our tariff, and our consumers already buy as much of them as they can afford to at world market prices. In order to make a real concession, we must make it on some commodity of which our government is now hindering or restricting the imports to the detriment of the foreign producer, and we must make it by removing such hindrances and restrictions. We are going to ask foreign governments to remove some of the duties and other restrictions which they place on our exports and they will rightly expect us to make similar concessions in return.

There is, however, a very considerable number of minor commodities on which high rates of duty are imposed by our tariff although we produce them in insignificant quantities or not at all. The Tariff Commission has recently listed over 350 types of commodities (the majority being manufactured commodities), which are described as "dutiable articles more or less noncompetitive and with respect to which foreign countries possess advantages." For 19 of these items the rate of duty in 1932 was over 100 percent ad valorem. It should be added that the phrase "more or less noncompetitive" is construed broadly by the Tariff Commission "to apply not only to dutiable articles (or types or grades of articles) not produced at all in the United States, but also to dutiable articles regularly imported in large proportion to corresponding domestic production, either in the entire year or, in the case of seasonal imports, in a particular part of the year." Evidently our country does not possess the resources required to develop the production of these commodities under tariff protection. Consequently the effect of tariff protection has been to restrict consumption rather than to stimulate production, and a lowering of duties on the commodities in question will permit imports to increase without substantial injury to any important domestic interest.

It has hitherto been a part of our traditional method of tariff making that if any group or interest, however insignificant in the economic life of the nation it may be, demands a tariff duty on some product, the request is usually granted forthwith. As a consequence, we have a great many duties that are largely futile and which could be eliminated with little sacrifice of domestic interest, but with substantial benefit to our own consumers and to our export producers.

But if we really want to get anywhere, we shall have to make more important concessions than any I have suggested thus far. Besides these minor industries which tariff protection has failed to develop because they are not suited to American conditions, we have a number of industries which are capable of successfully meeting foreign competition in the domestic market, but which are nevertheless protected by high tariff duties. Of the products of such industries the imports are extremely small in comparison with domestic production.

A substantial reduction of tariff duties on these products would not prevent the domestic industry from supplying most of the domestic consumption. Imports would still be small in relation to domestic production. Nevertheless, foreign producers would in many such cases obtain a considerable advantage from being able to gain even a small part of the American market, since our total purchasing power is very large in comparison with that of any other country. If, for instance, our imports of a commodity increased from 2 percent to 8 percent of our domestic consumption, the gain might be great to foreign producers but the

loss relatively small to our domestic interests, and even this loss would promptly be made good by a higher national purchasing power. The Tariff Commission has listed over 1,000 dutiable articles of which imports represent less than 5 percent of domestic production. In the case of more than half of these, our imports in either 1931 or 1932 were 1 percent or less of domestic production.

Naturally not all of the products coming under this category can be regarded as being specially suitable for concessions. Here we need some guiding principles to aid us in the selection of those which are most suitable.

One such principle would be to select commodities of which the consumption responds readily to a change in price -- commodities of which the demand is relatively elastic. A reduction of tariff duties on such articles will permit a real expansion of imports without a corresponding reduction of the outlet for domestic production. Generally speaking, the demand for most manufactured products is more elastic than the demand for most agricultural products. The demand for food is limited by inelastic stomachs while the demand for industrial products is largely governed by the elastic desires of the eye.

Manufacturing Interests Given Preference over Agriculture

Agriculture hitherto has always been given the worst of the deal in tariff manipulations and at the present time I think it should be pointed out that a reduction of the tariff duties on some, at least, of our agricultural products would result in significant reduction of price with but a relatively small increase of imports. The sacrifice which domestic producers would need to make would be greater, in proportion to the gain made by the foreign producer, than in the case of many manufactured products for which the demand is more elastic.

Another important guiding principle will be to choose commodities which are produced in this country under conditions of monopoly or partial monopoly. We have in the United States a number of tariff-protected monopolies, cases in which the tariff duty is higher than would be necessary to enable the domestic producer to meet foreign competition. Such duties have enabled the monopolists to maintain prices at unduly high levels and to restrict output -- and hence also employment -- unduly.

Those commodities of which the prices have been held relatively high during the depression owing to inadequate competition should be among our first choices for sacrifice in tariff bargaining. The producers of these goods will be forced to lower their prices in order to meet foreign competition, but at lower prices they will be able to sell a larger volume of goods. Hence employment in the industries producing these goods may actually increase. The sacrifice will here be made, not by labor, but by those who have been earning monopoly profits or who have minimized their losses during the depression by maintaining prices at an unduly high level. The sacrifice made by these people, however, will not be as great as it might appear at first sight. The spreading of overhead cost over a larger output and the increase in general prosperity which should follow a reduction of trade barriers will tend to offset the reduction of the prices of their products.

Competition Limited In Industry

Such considerations will apply to more than a mere handful of exceptional cases. I doubt whether the extent to which competition has been limited in American industry for a number of years is adequately realized. That the prices of farm products declined more from 1929 to 1932 than those of manufactured products is partly owing to the relatively inelastic demand for farm products. But in a very long measure it has been due also to the fact that there is more competition in the production of agricultural than of manufactured products. There has been excessive competition in agriculture the world over, and in the United States we are attempting to remedy this by our adjustment program. To a large extent, however, it has also been due to excessive limitation of competition in other industries. Even where there are several manufacturers producing similar goods there is often a general unwillingness to cut prices when the public interest, and the interest of the employees, would require such action. Manufacturers compete with each other in advertising and in improving the quality of their products, but price competition between manufacturers has in many cases been greatly limited. This fact has not been sufficiently realized by the general public, which thinks of monopoly as something that exists only when one producer controls more than, say, 75 percent of the output of a product. Even the economists have only recently extended the theory of monopoly to cover the field of imperfect competition.

The evils of competition in our most highly competitive industries, such as agriculture and coal mining, have been greatly increased by the limitation of competition in the more or less monopolistic industries. Submarginal producers and the employees of submarginal producers in the competitive industries have been prevented from finding work in other industries by excessive restriction of production. This has been in no small measure responsible for the relative overproduction in our highly competitive industries. An important aim in our economic policies must be to eliminate disparities between the prices of commodities competitively produced and commodities produced under monopolistic conditions. Tariff reduction can probably do more for us in this way than our anti-trust legislation has ever done. To the extent that it does so it will make our economic system run more smoothly. Tariff-protected monopolies should certainly be among the first interests to be sacrificed in the making of trade agreements. McKinley preached this doctrine the night he was shot at Buffalo, and Woodrow Wilson made lower tariffs a prominent part of his attack on monopoly in his New Freedom campaign speeches.

It must not be supposed, however, that the interests of manufacturing industry as a whole will be sacrificed. Some of our largest and most important manufacturing industries have in the past found profitable outlets for their products in foreign markets and can regain a part, at least, of what they have lost in exports by the reduction of foreign trade barriers. The new tariff policy should not be regarded as one of favoring agriculture at the expense of industry, but rather as one of favoring those industries in which our productive capacities are most effective. This includes, in addition to many important branches of our agriculture, some of the most important branches of our manufacturing industry.

Industries Able to Meet Foreign Competition Lead in Wage Increases

Many people are afraid that a reduction of our tariff would tend to lower the level of wages in this country, and bring it nearer to the levels prevailing in many foreign countries. Most of us know that this is a fallacy. Nevertheless I wish to make some observations on the point. Those industries which have led the way in the trend towards higher wages in this country are the very industries which have shown the greatest ability to meet foreign competition at home and abroad. These are the industries producing automobiles and various kinds of machinery and those in general which employ mass production methods. These industries have raised the level of wages in the United States above the levels of wages in foreign countries because our productive capacities in them have been exceptionally effective. Our tariff, by fostering the growth of other industries in which our capacities are less effective, and in which wages are lower, has retarded the long-time tendency toward higher wages and better living conditions.

It is not generally realized how small a part of the wage earners in this country have their employment protected by the tariff. Census data shows that there were nearly 50 million "gainfully employed" workers in 1929. More than half of these were employed in non-manufacturing industries with which imports cannot under any circumstances compete, such as internal transportation, gas and electricity, banking and insurance, building, public service, and others. Of the remaining half a considerable part was employed in industries for which profitable outlets exist or can be made to exist in export markets, industries which have been injured by our high tariff and the foreign import restrictions that it has tended to encourage. Another important group was employed in industries which could not substantially be affected by imports. These include various purely domestic industries, such as most printing and publishing; industries producing bulky materials such as coal, bricks and cement which are largely protected against foreign competition by high freight costs; and industries using methods of mass production such as ordinary textiles, pottery and clothes, in which foreign competition could not undersell the efficient American producer.

At the most generous estimate, not more than one American wage-earner in six is competing directly with a foreign wage-earner. As our tariff system has worked, the one has received a subsidy paid for by the five. To remove that subsidy quickly, however, would be disastrous; whatever is done must be done gradually and only after the workers and industries involved have had an opportunity to make necessary adjustments.

Finally, I wish to emphasize that, subject to certain qualifications already indicated, we should be most ready to make concessions on those commodities in which our productive abilities are least effective. Our most ineffective industries are those which need the highest degree of tariff protection to enable them to meet foreign competition. In general, therefore, our aim should be to reduce those tariff duties which have the highest ad valorem equivalent. The Tariff Commission has compiled a list of over 650 articles on which tariff rates exceeded 50 percent ad valorem in 1931. In nearly half of these items the rate exceeded 75 percent, and in nearly 100 cases it exceeded 100 percent. In 1932, when prices were lower, the number of cases must have been greater. I will surely not be called an extremist if I say that a rate of duty which is more than 50 percent ad valorem places a very heavy burden of proof on the industry which tries to justify it.

Agricultural Adjustment Necessary Until Foreign Markets Improve

Since the increase in foreign purchasing power resulting from these tariff negotiations will be slow at best, the farmers of the United States will have to hold fast to the present adjustment machinery until that foreign market is reopened. Whether that will be two, five, or ten years, no one can predict. But unless and until that does happen, it would be disastrous to revert to the old happy-go-lucky way of plowing up the fence corners and shipping the product off to Europe, for whatever it would bring.

In urging farmers to hold on to the centralizing powers of the Agricultural Adjustment Act, I am not shutting the door against changes and modifications in that legislation or in the administration of it. In response to appeals from growers, and in the light of a few months' experience, Congress enacted some amendments to the Act in this recent session, although other extremely important amendments were not acted upon. Further changes will doubtless be submitted for enactment at the next Congress. This process of change, of improving on a piece of machinery that was obviously crude at the start, is surely all to the good.

The significant thing for farmers to notice, however, is the source and the strength of the opposition to any changes designed to improve the Adjustment Act. That opposition, coming largely from processors, was effective enough this spring to prevent the passage of certain vital amendments. Doubtless the next big push of the opposition will be to repeal the Act itself.

That will not be admitted in so many words. The attack will be preceded by honeyed words of concern for the farmer; it will be made to appear that some minor operation on the Act--the removal of the processing tax, for instance--would remove a depressing influence from the market for farm products. The opposition will call that, I say a minor operation; actually it might be the death-blow.

If you permit the processing tax to be destroyed, and if no adequate substitute is provided, then the Adjustment Act is through, and so is farm relief.

Let me make a pretty safe prediction: If prices of farm products are not as high this winter as most farmers think they ought to be, certain processors and politicians and metropolitan newspapers will take advantage of that feeling among farmers to launch a vigorous attack on the processing tax, saying, of course, that the tax is responsible for the low prices; but if, on the other hand, prices of farm products are up, if the feeling among farmers is one of encouragement, then you may be sure that the opposition will begin to stir up consumers for the attack on the processing tax, saying, of course, that the tax is responsible for the high prices.

Any way you look at it, the processing tax is going to be in the limelight this coming year. If opponents of the tax can't get the farmers to join the battle against it, then they will probably get consumers.

And yet, no one to my knowledge has suggested any other practicable way to finance an adjustment program.

I can understand why processors don't like the tax--nobody expected they would. It will be a strange spectacle, however, if farmers turn on the processing tax. Farmers are the beneficiaries of the tax, and if there is no tax, there will be no benefit payments. I cannot believe any great number of farmers want to do away with benefit payments; nor do I believe they want to discard the processing tax, provided they understand that it is the means of providing benefit payments.

The great difficulty, just now, is that many do not understand that connection between the tax and the benefit payment. I have been amazed at the fact that many otherwise well informed persons in Washington and elsewhere do not understand that connection. They forget, for example, that the farmer who cooperates in an adjustment program receives not only the market prices for all his crop, but a benefit payment on top of that for part of his production. When we say the farm price of wheat is 75 cents, therefore, we ought to remember that to the cooperating farmer the price is 75 cents on all his crop plus about 28 cents a bushel on 54 percent of his production. And when we scowl at the fact that hog prices are still only around $5, we forget that the cooperating producer gets close to $2.25--the amount of the processing tax--in addition. We all want that market price itself to get closer to fair exchange value, but until it gets there, the benefit payment provided by the processing tax makes up most of the difference

You have heard or read complaints from farmers that the hog tax is being passed back to them, and there have been complaints from processors and consumers that the tax was a severe burden to them.

Now all of these three groups can't possibly be right--not all at the same time, anyway. If the consumer pays the tax, the packer and the farmer do not. If the farmer pays it, the packer and the consumer do not. Most of the time, as a matter of fact, our studies show that the consumer pays most of the tax.

There have been periods, I fully appreciate, when some of the hog tax was undoubtedly paid by the farmer before control of production became effective. If you look at the whole period from January through May, however, in 1934 as compared with 1933, you must conclude that the hog adjustment programs have been working according to schedule. Thus, receipts from hog sales in the first five months of 1933 totaled $180,000,000 and for the corresponding period of 1934 they totaled about $187,000,000 a slight increase. But--and this is the point--to this 1934 total must be added the price equivalent of the processing tax for the five months, or $80,500,000. Add 80 million to 187 million dollars and you find that returns from hogs during this period in 1934 will yield 47 percent more than in the same period in 1933. The only qualification necessary, of course, is that the 80 million dollars collected in processing taxes goes in benefit payments only to those producers who have agreed to cooperate in the adjustment program.

Even if the producer did have to pay a large part of the tax in the form of a lower market price, the tax would be returned to him--if he were a cooperator --in benefit payments; and a similar arrangement was ardently urged by farmers themselves in the days when they were fighting for an equalization fee. I cannot believe that any farmer who understands the connection between benefit payments and the processing tax, and who is cooperating in the adjustment program, would knowingly oppose the tax.

But the purpose of the opposition, of course, is to prevent any such understanding. When the facts are against them, they try to concentrate attention on things which have to do with emotions.

Agriculture Fighting For Right to Produce Cooperatively.

You in this audience, who have fought shoulder to shoulder in the long battle for agriculture and have finally won him the right to market his products cooperatively, are probably familiar with tactics of that sort. You have had to fight against propaganda. And now that agriculture is fighting for the right to produce cooperatively, we have the same old battle on our hands. In the past, though, it has been a battle between farmers and certain processing and distributing interests, with the Government standing more or less aloof. Today the Government is willing to step in far enough to see that the farmer gets an even break.

So long as the United States chooses to maintain a high protective tariff, it is only common sense for the farmer to make sure that he gets the equivalent of a protective tariff on his products. In the case of the producer of export commodities, the processing tax is the farmer's tariff. Since he has to buy on a protected market, anything less would be unjust.

All of us hope that before long America will choose to restore a large part of her foreign trade. But until that is an accomplished fact, the farmers of America must, in self-defense, hold on to and improve the machinery provided by the Agricultural Adjustment Act. That line will not hold, however, that machinery will not operate, unless the 12,000 cooperative marketing associations of the United States wish it to. And if there are ways in which our plans can be shaped so as to increase your incentive, we want to know about them.

But above all, let us do all we can to get a widespread, accurate understanding of this vital connection between benefit payments and the processing tax. This is the machinery of adjustment. A truly fundamental improvement in our agricultural situation is inconceivable without such machinery. We ask your help in making it work, in pointing out wherein it fails to work, and in obtaining the needed changes to make it work. And to everyone who would emasculate the processing tax, we must say: "What would you use in its place?" We shall have to keep on asking that question, I believe, until our foreign trade is once more the healthy, vigorous thing it used to be.

Discussion Statement No. 9 August, 1934
Material suggested for use in developing discussion of problems of agricultural adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration
Washington, D. C.

-------0-------

THE PLACE OF THE COOPERATIVES IN THE AGRICULTURAL ADJUSTMENT PROGRAM

*****

Address by H. R. Tolley, Assistant Administrator of the Agricultural Adjustment Administration, at the American Institute of Cooperation, Madison, Wisconsin, July 9, 1934.

The problems faced by the cooperatives, like those faced by the Agricultural Adjustment Administration, are not entirely problems in economics or political science. They also involve human relationships--the same ones that are met in any community or any neighborhood.

The cooperative program, like the adjustment program, is much larger than the administrative group which guides it. In the last analysis, both are programs of the farmers themselves. The Adjustment Administration is a Government agency established by Congress to aid farmers as a group in making national and regional adjustments which will restore farm purchasing power and the exchange value of farm products. Activities of the cooperatives have been necessarily more restricted than in the nation-wide adjustment movement.

For a long time, I have been deeply interested in the cooperative movement and the problems of cooperatives, and my first work with the Agricultural Adjustment Administration brought me in close touch with several of the leading cooperative marketing organizations.

In considering the place of the cooperatives in the agricultural adjustment program, one immediately faces the question, What do we mean by "cooperatives"? One may think of cooperatives as groups of farmers banded together for specific purposes of selling, buying or producing, or performing services like spraying or threshing. However, cooperatives in the usual sense are thought of as groups of farmers banded together primarily for marketing their products. It is to this type of cooperative that I will devote most of my remarks in this paper.

The agricultural adjustment program can be conceived broadly as including readjustments and changes in many lines--taxes, credit, international trade, land utilization, and rural organizations and institutions--as well as adjustments in the volume of production of the different commodities and in marketing methods and practices. It is with these last two phases of adjustment that the AAA is directly concerned.

Now, in considering the place of the marketing cooperatives in these phases of agricultural adjustment and the relation of the cooperatives to the work of the Agricultural Adjustment Administration, we must face the question, What can the cooperatives do in adjusting production by commodities, and in toto? Since most cooperative marketing associations are organized along commodity lines, obviously they can not do much in toto, except as adjustments by commodities add up to the whole. Possible accomplishments of a single cooperative depend upon the proportion of producers who belong to the cooperative and whether the members attempt to adjust their production. For example, a small cooperative creamery could do nothing significant in dairy production adjustment even if its membership included all the producers in the territory and all worked together perfectly to this end. A large cooperative--for example, the Pure Milk Association of Chicago or the Dairymen's League of New York--which has a dominating position in the area covered or market served can, if the members desire to work together to this end, exert an appreciable influence in adjustments in production that will help the incomes of the members. But adjustment in dairy production is a national problem. Dairy production in every area competes more or less directly with dairy production in every other area. Also, the fluid milk producers compete more or less directly with the producers of manufactured products.

A similar national problem exists in the citrus industry, where production is divided among several widely separated areas. The possibility of effective cooperation between the growers in areas as far apart as California, Texas, Florida and Puerto Rico appears to be so remote that it can scarcely be expected to result from any program lacking Government support.

Even though cooperative leaders have talked much about controlling the volume of their products and it has been accepted as one of the objectives of cooperatives, the fact is that the cooperative associations organized primarily for marketing have not, except in isolated instances, brought materially increased returns to farmers through adjustments in volume of production.

Regulating Production Fundamental Problem

It is true that many cooperatives have done much in regularizing and adjusting the time, place and rate of marketing, and also in improving the quality of products placed on the market. But regulating volume of production is, I believe, a more fundamental problem. At least, that is the most important of the tasks to which the AAA is dedicated.

Why have not the cooperatives done more in this direction? I think one of the principal reasons is that the cooperatives have been

organized primarily for another purpose - selling the products of their members - and the officers, directors and hired men of the cooperatives have found themselves very busy with this job, with little time left for any others. A second reason is that often members of cooperatives, or at least their managers, have measured their success in terms of member returns as compared to the returns of non-members. Naturally the members want to feel that they are receiving advantages which the non-members do not have, and the managers whose job it is to keep the organizations intact if possible, strive to preserve and increase these advantages.

But probably the most potent reason is that few of the cooperatives have had control of a large enough proportion of the production of any one commodity to have any hope of success in regulating total volume of production. Adjustment of this kind, where large numbers of individual producing units are involved, usually requires that each producer sacrifice some opportunity which he as an individual might have in order that all producers may benefit. In other words, the individual can profit most from production adjustment efforts - - at least when a downward adjustment is called for --- if other producers will do the adjusting. In those few cases in this country where cooperative effort to adjust production downward had been seriously undertaken prior to the advent of the Agricultural Adjustment Administration, the program had broken down sooner or later because the cooperating producers came to feel that the cost to them was too great. The effort at adjustment of grape production in California in 1930 and 1931 is an example.

The grape industry program which was developed under the Grape Control Board involved a surplus control plan for raisins and fresh grapes. It attempted to control the surplus of raisins and reduce market supplies of fresh grapes. This program was put into effect after a growers' sign-up of the major portion of the industry amounting to 85 percent. Subsequent events proved that under this voluntary plan the grape growers could not carry out surplus control. The growers who did not sign up naturally were not willing to bear their share of the cost; this placed a burden on the balance of the industry. Not only the heavy costs to those who participated but the discrimination involved in such a voluntary plan was too heavy on the participants and it was not long before human nature took its usual course and the program failed.

Adjustment of production is not of course synonymous with reduction of production. Keeping agricultural production so adjusted to the demands of the market that agricultural incomes will be at a maximum, may at times call for expansion of production, or for a shift on the part of some producers from production of one commodity to the production of another commodity. Faced as we have been for the past four years with vast accumulations of stocks of most of our staple farm products, with radically reduced purchasing power among our domestic consumers and curtailed outlets abroad, adjustments in all lines have necessarily been downward adjustments, and agricultural adjustment has in the popular mind come to mean reduction in production. But we cannot starve ourselves rich, and continued curtailment in agriculture and in other lines of production would in the end lead to lower standards of living for all the people. As surplus stocks of agri-

cultural products are worked down, as continuing nation recovery gives consumers greater purchasing power, and as foreign trade revives, agricultural adjustment should soon come to call for judicious increases in many lines of production over the severely-restricted volume of 1933 and 1934.

Production Must Balance With Effective Demand

Plans must be made for the adjustments--whether upward or downward--which will keep agricultural production in balance with effective demand, and give producers their fair share of the national income. To make and carry out those plans is a gigantic task requiring the best efforts of all the farmers, all their organizations, and all the governmental agencies created to serve them.

The cooperatives, organized to sell products already produced, can of course help materially if they will--but it will require a much greater degree of cooperation than has yet been achieved. To what extent can the cooperatives overcome the handicaps which have hindered their effectiveness in this direction in the past? And how can the cooperatives work most effectively with each other, with unorganized farmers, and with governmental agencies?

As I have already said, one of the chief handicaps is that the cooperatives are organized for marketing, and are busy at that, with no time for production. This handicap can be overcome, it seems to me, in part at least, if the directors, officers and managers of cooperatives dedicate more of their efforts to the production problem. It might be worth more in the long run to their members than the strenuous striving to obtain a better market price for members than is obtained by non-members, or to keep a competing cooperative from obtaining a foothold.

But is it not likely that a cooperative or a large group of cooperatives organized primarily for adjustment of production rather than for selling can contribute more than many of the present associations? We have, as a result of the past year of the AAA, the beginnings of this, in the county and community adjustment associations for wheat, cotton, corn and hogs, and tobacco. It seems to me that the best results can be obtained if these can grow into vigorous production adjustment cooperatives organized primarily for this one purpose--working with the other cooperative groups wherever they are present and with overlapping membership--to the common end of increasing the incomes and improving the living of farmers and their families.

Production control associations for the contract signers in the cotton, wheat, corn-hog, tobacco and rice programs are based on charters that are very similar to each other in nature. After the initial signup is completed, the signers form production-adjustment associations to take charge of the further details of the program. The signers in each township or precinct meet to elect a chairman and a permanent committee. Chairmen from the several townships or precincts, sitting together, constitute the county board. The boards of the county associations work through special

committees, one of the most important of which is the allotment committee, charged with checking and adjusting individual farmers' allotments.

It is likely that in the future these associations will undergo some modifications in form. If a composite contract covering an entire farm is formulated, it may be advisable to have a single association in each county. This might be departmentalized for the various commodities affected.

No Conflict Between Control and Marketing Associations

But these associations, formed for cooperation in adjusting production, would in no sense conflict with the associations which farmers have already formed to market their products.

Production adjustment under the Agricultural Adjustment Act to date has been for the most part a voluntary cooperative effort, with only those involved who voluntarily contract with the Secretary of Agriculture. Exceptions are a few marketing agreements which have included production adjustment provisions, the Bankhead Act for cotton, the Jones-Costigan Sugar Act, and the Kerr-Smith Act for tobacco.

The problem of returns to cooperators as compared with returns to non-cooperators has been in the foreground since the first production adjustment program was inaugurated under the Agricultural Adjustment Act. The processing-tax-benefit-payment device has made it possible for cooperators in these programs to receive at least as much and usually more net income than the non-cooperators.

Confirming the experiences in cooperation, it has been found in every signup undertaken thus far that there is a sizeable percentage of rugged individualists who will not voluntarily cooperate with their fellow producers for the benefit of all. No amount of persuasion by their neighbors, no amount of patriotic appeal would avail, and not even the direct pecuniary benefits which would accrue to them through the AAA could induce them to sign up.

Cotton growers carried out 1,000,000 adjustment contracts in 1933; their signatures represented 73 percent of the total cotton acreage. Wheat growers signed more than 550,000 adjustment contracts for the 1933-34 crop; their signatures represented 77 percent of the total area sown to wheat. Tobacco growers signed approximately 275,000 adjustment contracts for the 1934 crop; their signatures represented 95 percent of the tobacco acreage of the country. Corn-hog farmers signed over 1,000,000 contracts to be effective in 1934; their signatures represented between 60 and 70 percent of the hogs in the Corn Belt.

Majority Asks Protection

The fact that a minority insisted on staying out led to a powerful demand on the part of cotton producers for the Bankhead Act and of tobacco

producers for the Kerr Act, passed in the closing hours of the last Congress. Under the Bankhead Act every cotton producer, whether or not he is cooperating in the voluntary adjustment program, receives a definite quota for cotton for marketing in 1934. A tax equal to half the value of the cotton is placed on all cotton ginned in excess of the quota.

The Kerr-Smith Tobacco Act levies, on non-contract signers, a tax of from 25 to 33-1/3 percent of the sales value of tobacco. (A few special types grown in restricted areas are exempt from the Act in 1934.) Contract signers will receive tax-exempt warrants to cover the number of pounds of tobacco which they are allowed to market under their voluntary agreements with the Secretary. On allotments up to 6 percent of the amount of tobacco in each county allotted to contract signers tax-free warrants may be issued. These will be available to deserving producers who could not qualify for an equitable base under the voluntary contract. The real purpose of this Act is to insure that the benefits of tobacco adjustment programs shall go in the fullest measure to those cooperating in these programs.

The farmers of the country must some day decide whether production adjustment will go forward under the urge of voluntary cooperation, with assistance from the Government to voluntary cooperators and with the non-cooperators left free to do as they please; whether it will be carried out through definite quotas and allotments imposed by the Government on each individual producer; or whether those who desire to cooperate will call upon the Government to compel an unwilling minority to so order their production that they will not defeat the purposes of the majority.

Adjustment Act Amendments Discussed

One of the much-discussed and widely-maligned amendments to the Agricultural Adjustment Act which were before Congress at the last session provided that specific limitations with respect to quotas for producers should be placed on the general marketing agreement and license powers already authorized by the Act. Under this amendment, as proposed, the consent of two-thirds of the producers, either by number or volume of production, would have been necessary before quotas for a certain specified list of commodities could have been established through agreements and licenses. Following is the wording of the amendment as proposed by the Administration:

"(C) The Secretary of Agriculture shall not incorporate in any license issued pursuant to this subsection (3), except a license relating to rice, milk and its products, peanuts, flax, dry edible beans, vegetables, fruits (including nuts), or naval stores (including crude oleoresin), provisions for the establishment of quotas or allotments limiting the amounts of the commodity with respect to which such license is issued which may be purchased or in any other way received, by any licensee or licensees from any or all producers; and no license providing for such quotas or allotments shall be issued unless the Secretary of Agriculture determines that such provisions have been requested (I) by more than two-thirds of the producers who have been engaged in the production for market of such commodity within the area covered by such license during such period

as the Secretary of Agriculture determines to be a representative period of such production, or (II) by producers controlling more than two-thirds of the average acreage, or producing for market more than two-thirds of the average production for market of such commodity within the area covered by such license during such period as the Secretary of Agriculture determines to be a representative period of such production."

The proposed amendment was later modified in committee, with the approval of the Administration, by an added clause providing that a majority by number of the producers affected by a license would have the power to exclude any provisions of the license before or after it was issued.

Vociferous objection to this provision was made in the Senate (and by some who appeared before the Senate committee) on the ground that this would destroy the inalienable right of every man to do as he pleases regardless of the wishes of a majority of his neighbors and the economic consequences to all producers. It is true that, as some of the opponents said, this power in the hands of an unscrupulous Government official might be abused, but the same is true of any power delegated to any Government official or department. But would it not be a thoroughly democratic procedure to use the power of Government to compel an unwilling minority to accept the procedure desired by the overwhelming majority?

Here I wish to interject one definite thought about the proposed amendments. They will undoubtedly be reintroduced in the next session of Congress. You may be certain the resistance to them will be renewed.

The amendments were not proposed in the interests of the Agricultural Adjustment Administration or because of any wish of the Secretary of Agriculture for broader powers.

The amendments were worked out in response to demands of farmers, particularly members of cooperatives, for more effective enforcement of marketing agreements and licenses. They were worked out by farm organization leaders with us and were unanimously indorsed by the National Agricultural Conference of these leaders. The amendments are not fixed or unchangeable in form, but have been altered and we hope will be developed further to meet the wishes of the farm groups.

Enactment or rejection of these amendments, in pending or improved form, is not the responsibility of the Adjustment Administration. That is the responsibility of Congress. And I firmly believe that Congress will enact the amendments if it is convinced that the farmers earnestly want them enacted. Enactment of the amendments therefore is a question which the farmers, speaking individually and through their cooperatives and other organizations, are in the best position to answer. To an important degree, the question is up to the cooperatives, because it is they who are most interested in enforcement of marketing agreements and licenses.

Production adjustment, in any event, can be carried out only with the active support of most of the producers. Our entire political and social structure is based on the principle of majority rule. If this

principle is to be applied to economic affairs, it would seem that the minority must be prepared to submit to the wishes of the majority.

To date, the cooperatives have been most directly concerned in the marketing agreement and licensing phases of the Agricultural Adjustment Act. The agreements and licenses are designed to enhance returns to farmers through control and adjustment of marketings. Some of the agreements contain in addition, provisions concerning trade practices, charges, and so on, not unlike those contained in many of the codes of fair competition under the NRA. The marketing agreements have been only indirectly instruments for adjustment of production. However, if producers and associations of producers (in the language of the Act) so desire, it may be possible in the future to use marketing agreements as more direct instruments of production adjustment.

Volume Should Determine Price

A wide variety of devices has been employed in marketing agreements developed thus far. Many have fixed prices to be paid to producers. Among these are agreements affecting milk, cling peaches and tobacco. Some agreements in the early days of the AAA fixed resale prices as well. This was true of milk, peaches and olives. But no agreements with fixed resale prices have been approved in recent months. Some agreements, as for instance the citrus marketing agreements, contain no price provisions. Since the volume of supplies has such an important bearing on price, many of the marketing agreements provide for some control of supplies. It is true that most of those to date have provided for control of supplies already produced, rather than for control of production. The total quantity to be marketed in a given period is determined by a board or committee usually consisting of producers and marketers in equal numbers, and these total quantities are then pro-rated to the various marketing agencies on the basis of the quantity available for market by the growers selling through each agency under the agreement, the quantity marketed in past years by each agency, or some other equitable basis. Sometimes the pro-ration is carried directly back to growers, as is being provided in this year's cling peach marketing agreement. But in many, pro-ration among growers is left to each marketing agency. Of course a cooperative which uses a pooling system automatically carries pro-ration back to growers.

Some of the marketing agreements provide for setting aside a certain proportion of the supply from the regular channels of trade and diverting them to by-products in years when production is excessive. This is true of the walnut and raisin agreements already in operation and the prune agreement in the course of being developed.

In practically all cases, blanket licenses containing substantially the same provisions as the marketing agreements have been issued under the licensing power of the Act, with the licenses applicable to non-signers as well as to signers of the agreements. Here again, it has been found that only in exceptional industries will all of the marketers voluntarily agree to participate in a program designed to benefit the entire industry. Some rugged individualists will not cooperate.

In the marketing agreements the processors and distributors -- whether cooperative or proprietary -- are used as the agency for controlling and adjusting movement to market. Under a marketing agreement and license all the marketers participate in an industry marketing program, and hence the supply of all producers is, in effect, pooled, in respect to the provisions of the agreement.

The marketing agreement and license make possible the control of marketings which so many of the cooperatives have been striving for.

In many of the milk sheds, farmers' cooperatives have for years been exercising a real measure of control over milk marketing, but their power has always been weakened by the fact that not all the producers in the shed join the cooperative. In citrus fruit marketing, the cooperatives have been influencing very materially the volume of supply moving to market and the time and rate of movement, but they have been handicapped by uncontrolled supplies of non-members and by supplies from competing areas. The series of citrus marketing agreements and accompanying licenses has in the past year demonstrated the value of all working together.

The California citrus industry is recognized as one in which cooperative organizations have taken the leadership in marketing for many years. Despite the efficiency of their distribution, the expansion of production which has occurred since the war has been greater than could be effectively distributed at satisfactory prices to producers, because of the reduced buying power of consumers. This has been true both of the navel orange crop which is marketed in competition with Florida and of the Valencia orange crop which is not competitive with Florida. In the season of 1933 the supply of Valencia oranges was so large that a voluntary proration agreement was entered into by all of the larger marketing agencies and a number of individual shippers. These agencies ship more than 90 percent of the Valencia crop. Despite the large percent of the industry which was cooperating it was found that the small minority outside the agreement shipped quantities considerably in excess of their proper proportion. In other words this small minority profited by the sacrifices of the large majority. The experience under this voluntary agreement led the industry to develop a marketing agreement under the A.A.A. which has been in operation since December, 1933.

The Florida citrus situation is very different from that in California. The cooperative tonnage is less than half the entire volume and the balance is scattered widely among several hundred shippers who in some cases market tonnage grown by them and in many instances market supplies accumulated from small growers. Repeated efforts have been made in recent years to regulate shipments from Florida, but actual experience has proven the extreme difficulty of operations of this character without the full cooperation of all shippers. During the last few months the prices secured for products as a result of the marketing agreement have been most satisfactory and probably could not have been secured in any other way.

Scattered Producers Must Have National Agreement

Plans for national pro-ration under a national citrus agreement are now going forward, though they are not in actual operation.

Cooperative marketing of potatoes is being carried on at present by organizations which have been in operation for as long as 40 years in several different producing areas. With one possible exception the present cooperatives do not handle as much as half the crop in any producing area and in most cases this percentage varies from one-fourth to one-third of the total volume. It appears that there is little likelihood in the near future of the cooperative marketing associations securing and holding a large percentage of the business. However, the industry as a whole has an opportunity to join in a common effort through a marketing agreement or a series of agreements to stabilize production in the various districts and to regulate shipments to market. The first steps in carrying out this development are now being taken in the Middle Atlantic States.

Numerous potato producing districts are in direct or indirect competition with each other. It might be possible to develop a series of marketing agreements through which the different areas might cooperate with each other in a production and marketing program which would be reasonably satisfactory in returns to producers and at the same time avoid the wide variations in potato production from year to year.

Even the walnut growers of the country, 90 percent of whom belong to a single cooperative marketing association, asked for and obtained a marketing agreement, under which in the past year marketing has been very successful.

Walnut growers are receiving for last season's crop about $9,000,000, which is $3,000,000 more than it appeared the growers had hope of receiving on entering the season. The control board, established under the AAA marketing agreement, set aside 30 percent of the supply for foreign export and byproducts.

In practically every marketing agreement, one or more cooperative marketing associations have been involved. The negotiation and development of the agreements, and operations under the agreements and licenses, have brought into focus many problems as to the place of the cooperative in this phase of agricultural adjustment, the relation of the cooperatives to the AAA, and the relation between the cooperatives and proprietary marketing agencies.

Experience has shown that the cooperatives have an important place in this phase of agricultural adjustment, and that they may come to have a more important place than they have occupied to date. The present series of milk marketing licenses has been developed largely in collaboration with

the cooperative bargaining associations in the milk sheds, although dealers' problems are of course considered and dealers and their representatives have been consulted freely.

The object of the milk licenses is to obtain as large an income for producers as is possible in the face of limited buying power of consumers and a widespread condition of relative over-supply. When the adjustment program was getting under way last year, an attempt was made to improve conditions in fluid milk markets by a series of marketing agreements, in which producers' prices and resale prices were fixed. Milk distributors and processors, as well as cooperative associations of producers, were parties to these agreements. However, it was found impracticable and inadvisable for the Administration to enforce resale milk prices. Furthermore, the distributors, in becoming voluntary parties to the agreements, frequently exerted pressure for provisions favorable to themselves regardless of the effect upon producers. Some of these difficulties are avoided in the present licenses.

The main object of the milk licenses is to assure minimum prices to producers. Conditions vary from market to market, and the licenses contain provisions adapted to local conditions. Both in the formulation of the licenses and in their enforcement, the Administration has worked closely with cooperative associations of producers.

Cooperatives Occupy Strategic Position

In the marketing agreements and licenses in general, the cooperatives appear in a double function. They are associations of producers and they are marketing agencies. Hence they occupy a strategic position which neither unorganized producers nor proprietary marketing agencies can occupy.

The question has often been asked: Why does not the AAA give greater recognition to cooperatives? The fact is that the AAA must recognize all producers, whether cooperative or not, and arrange that benefits to producers be spread equitably among all. As Administrator Davis expressed it in a recent speech:

"The Agricultural Adjustment Administration is obliged to look at the cooperative picture and the farm picture as a national one, not as a regional or local one exclusively. We are concerned with <u>all</u> milk producers and their problems, irrespective of whether they are selling milk to city markets or to manufactured milk plants . . . . We wish to be fair and helpful to the producer-distributor as well as to the man who ships his milk to a pasteurizing plant at wholesale prices . . . . I know that many of the cooperative leaders understand the necessities of our position . . . . Any Federal agency must follow the principle of fair and equitable consideration to the problems of all milk producers. It must follow the cooperative principle of working together for the sound betterment of the milk producers of the land."

The AAA has been criticised by some cooperative leaders as being antagonistic to cooperatives. If by "antagonistic" they mean willingness

to give consideration to problems of producers who are not members of cooperatives, they are correct. If by "antagonistic" they mean refusing to accept without question every proposal made by a cooperative or its representative, they are correct. If by "antagonistic" they mean refusing to enter into agreements which will penalize non-members for the benefit of members, they are correct. But if by "antagonistic", they mean endeavoring to undermine the cooperative movement among farmers or to develop programs which will work to the disadvantage of farmers who are members of cooperatives, they are dead wrong.

Another question has been: Why does not the AAA recognize the milk bargaining cooperatives as sole agencies in milk licenses? The AAA would be relieved of many of its problems if it could turn the operations under a license over to the producers in this way. The cooperative would have to be an organization of sufficient standing and experience to give assurance that it could control its membership. Then there would be the question of the producer who is not a member. I cannot help but wonder if the farmers who are members of the cooperative would benefit from the arrangement and if the leaders and managers would find to their liking the job of operating an agreement or a license which must provide for equal treatment to members and non-members. And if through no fault of the cooperative or its leaders, the agreement or license should prove faulty or impossible of enforcement, would the association involved and the cooperative movement in general lose more than they would gain? In some markets the question would be complicated by the presence of two or more rival cooperatives. I mention these factors, not with the thought that such an arrangement would be impossible, but to call attention to some of the obstacles and to provoke discussion of the whole question.

Greater Cooperation Needed Among Cooperatives

The activities under the AAA are bringing into the foreground the need for greater cooperation among cooperatives. Too often in the past we have had competing cooperatives in the same field, proselyting each other's members, endeavoring to undermine each other in the market, and so on. Under a marketing agreement all must work together to a common end -- better returns for all. An inter-cooperative feud may prevent the development of a satisfactory agreement or may cause a breakdown in its operation after it is developed. My observation is that ill feeling between competing cooperatives often is greater than that between cooperatives and proprietary marketing agencies. If cooperatives are to exercise their greatest influence in agricultural adjustment, members and their leaders must give ever-increasing attention to <u>cooperation</u> between cooperatives, and less and less to <u>competition</u> between cooperatives.

Then, too, agricultural adjustment calls for action on a nationwide front, and the local or regional cooperatives must work with cooperatives in other localities or regions if the cooperatives are to make the fullest contribution.

The AAA recognizes that all phases of any adjustment program in which it is interested now or in which it is likely to be interested in the future require a higher degree of cooperation among farmers than had been achieved prior to passage of the Agricultural Adjustment Act. At the same time it recognizes that the ability of farmers to work together which has been developed through the cooperative movement in the United States has contributed in very large measure to whatever degree of success has been attained or will be attained.

In closing, I wish to make it absolutely clear that the essence of agricultural adjustment is cooperation among farmers in the production and marketing of their products. Naturally the Administration wants to work with cooperatives already established and to strengthen the cooperative movement among farmers.

The philosophy of the New Deal, as President Roosevelt has more than once explained, is that the power of the Government should be used to enable the 90 percent who are cooperators to organize themselves for the welfare of their group. This means that the non-cooperators who usually make up the other 10 percent must not be allowed to thwart what the 90 percent wish to do.

This, as I understand it, is also the philosophy of the cooperative movement. And so it seems appropriate that the existing cooperative organizations, which have pioneered along a difficult trail, should be at the forefront of the present effort.